

VZCZCXRO4060  
PP RUEHBC RUEHDE RUEHKUK  
DE RUEHDIR #0037/01 1431358  
ZNY SSSSS ZZH  
P 231358Z MAY 07  
FM IRAN RPO DUBAI  
TO RUEHC/SECSTATE WASHDC PRIORITY 0127  
INFO RUCNIRA/IRAN COLLECTIVE  
RUEHDIR/IRAN RPO DUBAI PRIORITY 0120  
RUEHDE/AMCONSUL DUBAI PRIORITY 0111  
RUEHAD/AMEMBASSY ABU DHABI PRIORITY 0077  
RUEHAD/USDAO ABU DHABI TC  
RHEFDIA/DIA WASHINGTON DC  
RUEAIIA/CIA WASHDC  
RHEHAAA/NSC WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHINGTON DC

S E C R E T SECTION 01 OF 02 IRAN RPO DUBAI 000037

SIPDIS

SIPDIS

E.O. 12958: DECL: 5/23/2017  
TAGS: [PGOV](#) [ECON](#) [EPET](#) [IR](#)  
SUBJECT: IRAN TAKES THE HEAT FOR RAISING GAS PRICES

REF: A. RPO DUBAI 0015, B. RPO DUBAI 0033

RPO DUBAI 00000037 001.2 OF 002

CLASSIFIED BY: Jillian Burns, Director, Iran Regional Presence  
Office - Dubai, Department of State.  
REASON: 1.4 (d)

1.(S) Summary: As of May 22, the price of gasoline in Iran was increased 25% to roughly 10 cents per liter, and gasoline purchases will only be allowed with "smart cards." Iran's Interior Minister Pour Mohammadi said that gasoline rationing would begin "early June," based on a quota system that will be announced by the cabinet "within days." However, one contact who claimed to have worked on the smart card project said recently that the country lacks the communication structure to fully implement a fuel-card system. The government has been threatening to decrease gasoline subsidies for years, which constitutes a huge drain on the annual budget, but until now failed to take this unpopular step. Some contacts opine that President Ahmadi-Nejad made the tough decision in the face of a feared embargo against refined gasoline imports. In the view of one Iranian expat economist, cutting off Iran's gasoline supply would be the only way to "get to the government," but at the same time, he was concerned over repercussions for the Iranian people. He claimed that the government is actually "benefiting" from the current atmosphere of sanctions and international pressure and that it thrives under "crisis conditions." The people are already bearing the brunt of the burden, he said. While we agree a cut-off of gasoline would have an immediate impact on the Iranian government, we would argue that it is better for the increasingly unpopular Ahmadi-Nejad government to be seen as the cause of increasing prices and decreasing supplies. End Summary

Gasoline prices rise and rationing on tap  
-----

2.(S) In a joint statement May 22, the Minister of Oil and the Minister Interior announced that gasoline prices rose 2 cents per liter, or roughly 25% to 10 cents per liter. In addition, Iranian must now use a "smart card" to purchase gasoline. They said that "all filling stations have been equipped with smart card systems and more than 90 percent of stations have become operational." Pour Mohammadi told reporters that once all smart cards were distributed - within 10-15 days - "rationing would take affect." While the cabinet has yet to announce the rationing system, the Interior Minister said "for the current year, two quotas have been determined for every five months." Presumably, the rationing would be controlled by the smart card,

but according to an IRPO contact - who claimed to have been the consultant for the project - the country still lacks the communication infrastructure to take full advantage of a fuel-card system.

Why ration now?

-----

3.(S) In a discussion with IRPoff, one Iranian expat economist said that the Iranian government has been "threatening to implement some sort of gasoline rationing system for years." This had presumably not been done, he said, because domestically it is very unpopular, particularly for a president like Ahmadi-Nejad who sells himself as a populist. The Iranian government's current efforts to reduce gasoline consumption are probably in part to protect itself from a possible boycott and in part to decrease the money spent on subsidies (ref A). Depending on the rationing scheme set to be announced in the next 1-2 weeks, lowering fuel consumption could lessen the impact that any future gasoline boycott would have on the Iranian economy. Current estimates suggest that Iran imports roughly 40% of its gasoline needs. (Note: Further complicating the situation is the reportedly high levels of gasoline then smuggled out of the country. The consultant for the smart card project claimed to IRPO Director that his research indicated that two thirds of gasoline purchased by the gasoline stations he tracked ended up somewhere else other than the gas pump. He said that when he presented his research to the Ministry of Oil, they asked him not to publicize these findings. He claimed that the IRGC and others are likely involved in smuggling. End note)

An advocate for gasoline embargo

-----

4.(S) The Iranian economist told IRPoff that President Ahmadi-Nejad only thinks about the economy when he is "forced to" under pressure, and that economic liberalization and growth are not a goal of the current administration. He repeated the complaints of other contacts that after the new administration

RPO DUBAI 00000037 002.2 OF 002

sidelined experts in the ministries, it lost the "capacity" to shape long-term economic policies. Instead, he said, decision-making is reactionary. The government tends to operate in crisis mode, and it applies short-term band-aids to long-term problems. He predicted the government would continue to use oil dollars to bankroll short-sighted economic policies that are appealing to the public but not good for the long-term economic health of the country -- as long as it is "allowed to do so." The economist opined that oil dollars "cushion" the impact of the international sanctions for the government and that the consumers pay the increased costs associated with doing business with Iran (ref B).

5.(S) The economist asserted - though with great hesitancy - that the only way to "hurt" the government would be to impose a gasoline embargo on Iran. At the same time, he recognized that such an act would be very detrimental to the Iranian people. He also predicted that critics of the West inside Iran would use such a move as "proof" that the West was lying when it claimed that its sanctions were designed not to hurt the Iranian people. Nonetheless, the economist argued for an embargo because he believed that the financial pressure against Iran to date actually benefited the current government and its policy of isolationism. He said the only way to "force" the reactionary, crisis-driven Ahmadi-Nejad government to change its behavior would be to put it in a position where it has no choice.

6.(S) Comment: It is clear that a sudden cut-off of gasoline imports to Iran - if enforceable - would cause an immediate effect in a country that is importing almost half of its gasoline needs. However, it may not yield the desired effects. We have noted that contacts of all ages are increasingly blaming their country's political and economic difficulties more on their own government and less on external pressures. If true, a gasoline boycott that caused immediate pain among ordinary

people could reverse this trend. It is preferable that the apparently increasingly unpopular Ahmadi-Nejad government directly takes the hit for higher prices and reduced supply of gasoline in Iran, not the international community.

BURNS